

Minutes for the November 6, 1997 RSFA Outreach Workshop
Interest on Overpayments

Randall Drake distributed copies of the two attached papers, Interest Rule Issues and RSFA Interest Billing Thresholds. Randall proceeded to review the background of each issue and then led a discussion for feedback.

De Minimis Exceptions - The general agreement was to post the amount in the Federal Register. The amount is currently \$1.00 but it was requested that MMS consider a \$4.00, \$5.00, or \$8.00 de minimis amount.

Randall also discussed why MMS is issuing \$0.00 bills. All interest statements that total less than \$25.00 are manually reviewed. An interest statement can total \$1.00, but this netted total occurs because \$1,000 of interest is being assessed on Lease 1 and a portion paid to State A and \$999 of interest is being paid to Lease 2 and a portion taken from State B. The MMS adjusts the statement to \$0.00 and issues it so the distribution of funds will be correct. One person stated that they would prefer not to receive the \$0.00 statements.

Estimate on Leases When Payor is no Longer Responsible for Paying - General agreement was MMS should not pay interest on estimates not recouped on a lease if a payor has ended its responsibility for that lease. Representatives offered to help MMS anyway they could to resolve this issue.

Estimates on Leases are Greater than the Actual Amount Paid--Payor is Still responsible for Paying - Concern was expressed that in some cases there is no production but estimates are left on leases because there are extenuating circumstances like the well is temporarily shut in, no markets, etc. MMS needs to accommodate these circumstances. Opinions expressed were :

- (1) interest should be paid, and
- (2) if a payor is notified and does not rectify the situation, MMS should stop paying interest for that lease.

Takes v. Entitlements True-up - No discussion.

Interest for Overpayments Made after Feb 13, 1997 For Pre-January 1997 Sales - No discussion.

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Interest Rule Issues

Recently, several issues have evolved which require additional thought and discussion in the rule. These issues are discussed below, summarized in the direction that MMS feels is proper to follow, and noted as to how follow-up will occur:

Issue	Discussion
de minimis Exceptions	Will establish a small dollar limit under which MMS will neither attempt to collect interest nor will pay interest. Automated Follow-up
Estimates on Leases When Payor Is No Longer Responsible for Paying	Will provide that the payor may not report interest and MMS will not credit interest after the first month following the month a payor's responsibility ends. Manual Follow-up
Estimates on Leases Are Greater Than the Actual Amount Paid--Payor Is Still Responsible for Paying	Will provide that when estimates exceed actuals by more than X% (10%, 20%, 50%, or whatever MMS establishes) for more than a set period (probably a number of months) payors must reduce estimate to a prescribed margin. If the estimate is not reduced, the payor will have to repay the interest paid to them plus additional interest on that amount for the period of overpayment. Manual Follow-up
Takes v. Entitlements True-up	Interest will accrue from the first day following the end of the reporting relief period, which is not greater than one year. Manual Follow-up: Possibly Automate Later
Interest for Overpayments Made after Feb 13, 1997 For Pre-January 1997 Sales	Cannot REPORT interest or receive system generated credit for such payments. However, with proper documentation, we will manually credit or effect payment. Manual Follow-up

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RSFA Interest Billing Thresholds

Background

The MMS started billing late-payment interest in 1983. Our initial bills were manually generated and contained little detail. Feedback from payors dictated that when establishing the automated module, we provide a great amount of detail so that payors could determine exactly how we calculated interest. For instance, if a payor paid royalties 18 months late, and during that period the U.S. Treasury interest rates changed four times, our system would calculate and print four different bill lines; many for small amounts, and some for even less than a dollar. However, if the sum of the lines were great enough, we billed all of them. In Fall 1994, a payor testified before Congress using one of our “small-line-amount bills” as evidence that we were “nitpicking” the industry by billing such small amounts; even though the rolled-up amounts at the lease-sales month level often resulted in larger amounts.

For quite some time, we have awaited the opportunity to not bill such small amounts. RSFA provides that opportunity. We have built into the late-payment module a feature to automatically tally line-level amounts and delete them from pre-bills if they fall below a defined threshold amount. The task here is to determine the amount at which such a threshold should be set.

Cost to Process a Billable Line

The cost for MMS to review billable lines approaches \$4 per line. Industry is thought to have about the same cost for their analyses of our bills. Therefore, the total cost for processing billable lines is almost \$8.

Recommended Thresholds for Billable Lines

The new interest module is designed so that we can set thresholds for lines, under which, the calculated amount will not appear on the interest bills. One threshold, which has almost universal acceptance is \$1. However, given the processing cost for each billable line, perhaps a more reasonable threshold would be \$5. Reviewing billable line information for our first 4 months of running the new interest module reveals some interesting (no pun intended) results. We had almost 124,000 lines for \$5.2 million. The following table shows how many lines we would delete and the dollars we would not collect at these thresholds.

<u>Threshold</u>	<u>Dollars</u>	<u>Percent</u>	<u>Lines</u>	<u>Percent</u>
\$1	\$ 6,800	0.13	40,000	32
<u>5</u>	<u>3,800</u>	<u>0.07</u>	<u>30,000</u>	<u>24</u>
Total	<u>\$10,600</u>	<u>0.20</u>	<u>70,000</u>	<u>56</u>

What Is the Impact Setting Thresholds?

Analyzing the same data as we did above also yielded some interesting results. For our analysis, we looked at billable lines of plus and minus \$1 as well as plus and minus \$5, totaling those payors which summed more than plus or minus \$100.

In the first category, only eight payors had amounts greater than \$100 for which we would not collect a total of \$3,700. We would not have had to “pay” interest to any payors in this category.

Similarly, for the latter category, which includes the amounts of the first category, we would not collect interest totaling \$15,600 from 30 payors. Some of this gain would have been shared with States. Also, we would not have paid interest totaling \$11,900 to 37 payors. Some of this loss would have to be shared by the States.

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